MART RESOURCES, INC.

ANNUAL REPORT
1997

Winspear Business Reference Room
University of Alberta
1-18 Business Building
Edmonton, Alberta T6G 2R6

LETTER TO SHAREHOLDERS

On behalf of the Board of Directors of **Mart Resources, Inc.**, I am pleased to present the annual report for the fiscal year ended December 31, 1997. During the year, Mart concluded its exploratory endeavors on the Tsuu T'Ina Indian Reserve in the foothills west of Calgary and turned its attention entirely to high potential international exploration and exploitation opportunities. Although a number of these opportunities did not fit the necessary combination of parameters established by the Company, others are presently being evaluated and an exciting venture in west Africa has become Mart's first international undertaking.

On August 28, 1997 Mart announced that it had entered into a letter of intent to purchase all of the shares of Collier Ventures Ltd. conditional upon Collier providing Mart with certain warrantees and representations as well as Mart obtaining all necessary regulatory approvals. On January 29,1998 Mart announced it had received all necessary warrantees and approvals and that it had concluded the acquisition of Collier through the issuance of 3,000,000 of Mart's common shares at a deemed price of $0.33 1/3 per share. As a result of this purchase, Mart acquired a 100% working interest in a 920,000 acre oil and gas exploration permit (the Rendus Permit) located immediately north and east of the mouth of the Congo River in the Democratic Republic of Congo. This onshore Permit extends over the east central portion of the Congo Salt Basin, a west African rift feature that stretches southeastward along the Atlantic coast from southern Gabon to central Angola. This prolific basin contains oil and gas fields over its entire length both on and offshore.

The Rendus Permit holds excellent potential of yielding large (multi-million barrel) oil fields. It is bordered immediately on the west by producing fields containing 100 million barrels of recoverable oil reserves and on the east within the Permit boundaries are found over 500 million barrels of tar sand oil. The giant Molonga oil field with over 750 million barrels of recoverable oil is on trend to the northwest. Although the Permit covers a highly prospective portion of the Congo basin it has been only lightly explored with just 13 test wells and limited seismic coverage. The first well on the Permit, the Lindu #1, was drilled in 1964 and flowed at a tested rate of 377 barrels of oil per day and there were excellent oil shows reported from a majority of the other wells. Despite these initial highly encouraging results, the Permit has remained untouched since 1984 as a result of both an industry wide downturn in the mid and late 80's and local political unrest in the early and mid 90's.

The original exploration of the Permit was conducted by PetroFina beginning in 1959. They enjoyed early success in finding oil fields in the coastal portion of the Permit and therefore concentrated much of their drilling efforts in that area. In 1984 PetroFina was required by agreement to return all of their remaining acreage to the State other than that associated with their producing fields along the coast.

Two major oil companies, Conoco and Occidental, subsequently did extensive analysis of all of PetroFina's data relative to the area now comprising Mart's Permit. Both these companies wrote favourable reports which were provided to Mart by the State along with other pertinent material.

Conoco's report in particular was outstanding and provides numerous detailed maps and cross-sections. In this report six exploration leads were identified on the Permit with total possible recoverable reserves of 980 million barrels of oil. The highest rated of these leads, the Yema lead with 234 million barrels of possible recoverable oil reserves, is in the western portion of the Permit south of Cabinda just two miles from the Liawenda oil field, a producing field containing reported recoverable reserves of 54 million barrels of oil. In support of the unusually candid optimism presented in their report, Conoco's explorationists observed that the reservoir quality of the prospective sands underlying the Rendus Permit was the best they had observed in any of the west African Coastal Basins.

Although enthusiasm was displayed by both Conoco and Occidental at the operational level, management of both companies elected not to move on the Permit. It can only be speculated that the highly sensitive political climate at the time figured prominently in their decisions. Subsequently the principals of Collier became interested in the Permit and after studying the reports available from the State they were able to recognize its outstanding potential and moved quickly to acquire it. Mart concluded their arrangement with Collier shortly thereafter.

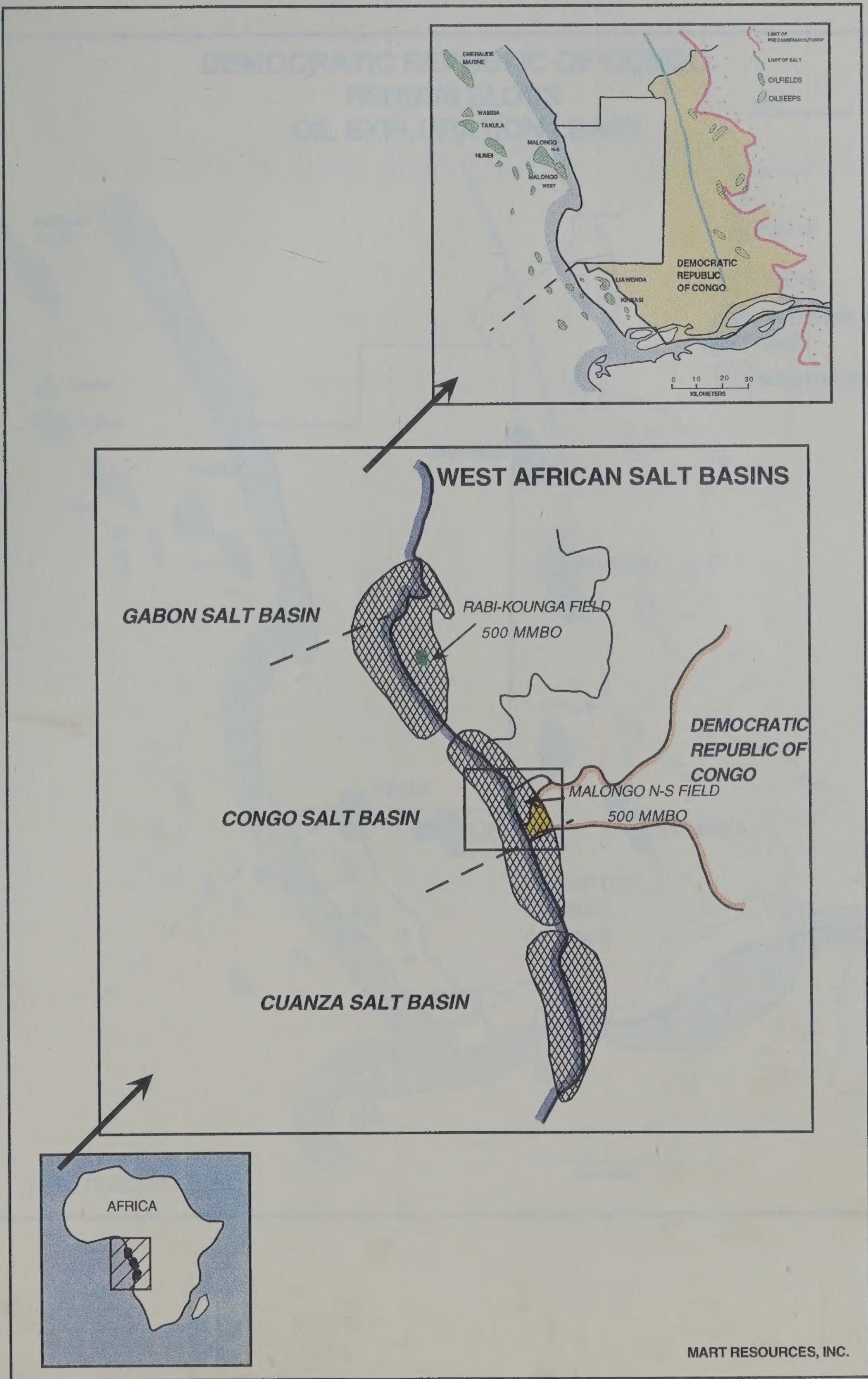
Mart is presently negotiating a Production Sharing Agreement (PSA) with the governing Ministries of the Democratic Republic of Congo. Ratification of this agreement, which contains terms favourable to both Mart and the State, is imminent. Following ratification, Mart intends to invite an industry partner to participate in an immediate aggressive evaluation of the Permit.

On Behalf of the Board of Directors,

Robert J. Leslie

Robert J. Leslie, Ph.D., P.Geol.
President & Chief Executive Officer

May 21, 1998



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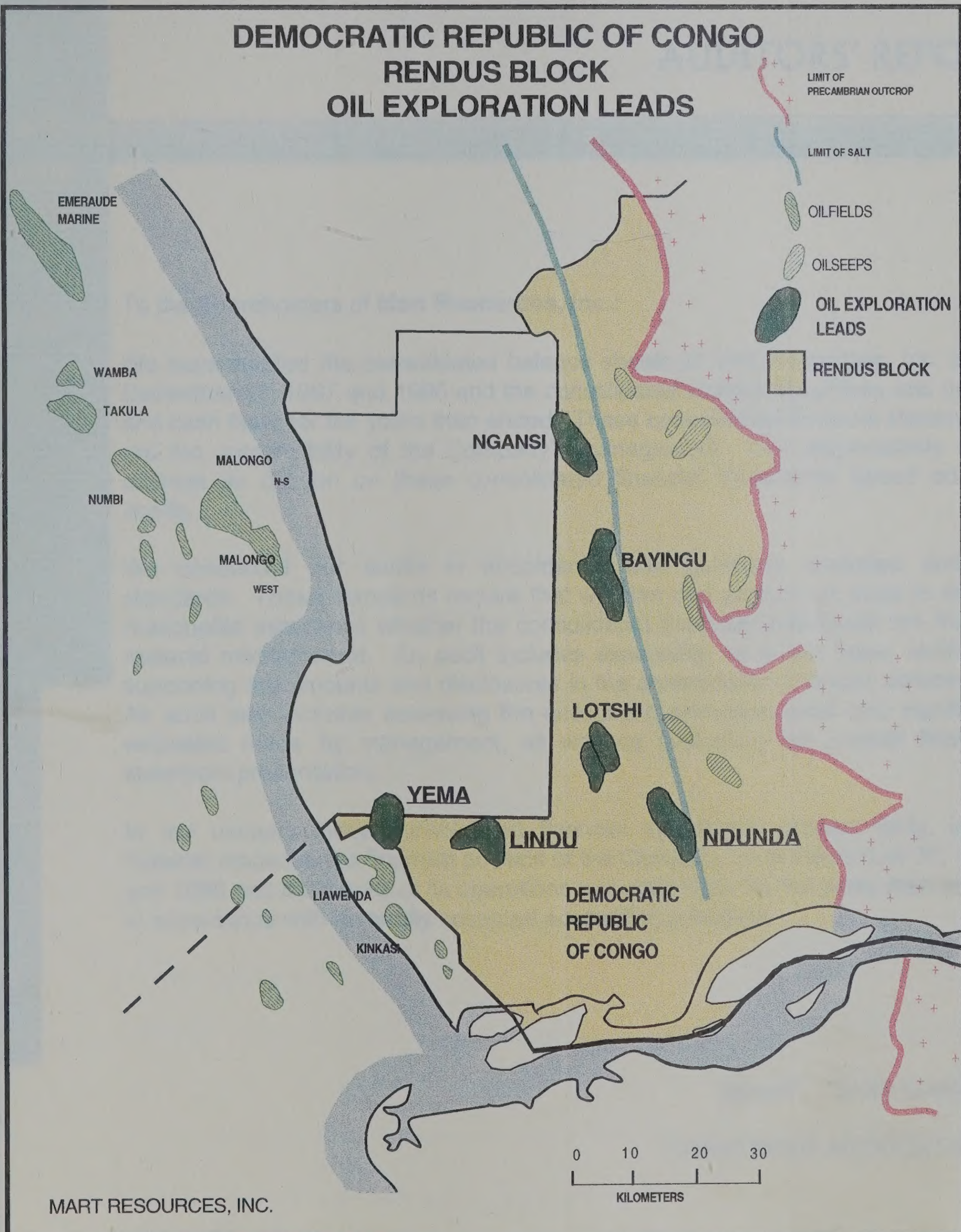
MART RESOURCES, INC.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MART RESOURCES, INC.

AUDITORS' REPORT

To the Shareholders of **Mart Resources, Inc.:**

We have audited the consolidated balance sheets of Mart Resources, Inc. as at December 31, 1997 and 1996 and the consolidated statements of loss and deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and cash flows for the years then ended in accordance with generally accepted accounting principles.

"signed" Smith Cageorge

CHARTERED ACCOUNTANTS

CALGARY, Alberta
May 14, 1998

CONSOLIDATED BALANCE SHEETS
as at December 31, 1997 and 1996

		1997		1996
ASSETS				
CURRENT				
Cash and term deposits	$	144,179	$	842,761
Accounts receivable		960		43,569
Joint venture costs receivable (Note 3)		124,069		244,976
Prepaid expenses		-		1,600
		269,208		1,132,906
INVESTMENT IN SEISMIC DATA (Note 6)		310,400		-
CAPITAL ASSETS (Note 4)		6,969		9,094
PETROLEUM AND NATURAL GAS PROPERTIES (Notes 2, 5 and 6)		340,212		3,232,920
	$	926,789	$	4,374,920
LIABILITIES				
CURRENT				
Accounts payable and accrued liabilities	$	71,307	$	452,353
Site restoration costs		55,000		-
		126,307		452,353
SHAREHOLDERS' EQUITY				
CAPITAL STOCK (Note 7)		5,383,906		4,009,031
DEFICIT		(4,583,424)		(86,464)
		800,482		3,922,567
	$	926,789	$	4,374,920

See accompanying notes to consolidated financial statements

APPROVED ON BEHALF OF THE BOARD

Robert J. Leslie, Director

CONSOLIDATED STATEMENTS OF LOSS AND DEFICIT

for the years ended December 31, 1997 and 1996

	1997	1996
REVENUE		
Sale of seismic data	$ 77,600	$ -
Oil and gas	-	46,831
Interest	859	1,905
	78,459	48,736
EXPENSES		
Consulting	90,586	65,358
General and administrative	51,288	16,793
Professional fees	33,899	20,399
Wages and benefits	23,184	8,099
Stock exchange and transfer agent fees	13,613	23,098
Depreciation	2,125	1,211
	214,695	134,958
LOSS BEFORE ABANDONMENTS AND SITE RESTORATION	(136,236)	(86,822)
Abandonments (Note 6)	(4,305,724)	-
Site restoration	(55,000)	-
	(4,360,724)	-
NET LOSS	(4,496,960)	(86,222)
Deficit, beginning of year	(86,464)	(242)
DEFICIT, END OF YEAR	$ (4,583,424)	$ (86,464)
LOSS PER SHARE	$ 0.04	$ 0.01

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

for the years ended December 31, 1997 and 1996

	1997	1996
OPERATING ACTIVITIES		
Cash from operations		
Net loss	$ (4,496,960)	$ (86,222)
Add non-cash items		
Abandonments	4,305,724	-
Site restoration costs	55,000	-
Depreciation	2,125	1,211
	(134,111)	(85,011)
Net change in non-cash working capital	(215,930)	149,781
Cash provided by (used in) operating activities	(350,041)	64,770
FINANCING ACTIVITIES		
Issue of capital stock		
Common shares	-	2,041,176
Acquisition of petroleum and natural gas properties	-	1,650,000
Reduction due to flow-through shares issued	(110,625)	-
Exercise of options	15,000	41,750
Conversion of warrants	1,201,500	20,250
Share subscription received	269,000	-
Cash provided by financing activities	1,374,875	3,753,176
INVESTING ACTIVITIES		
Acquisition of capital assets	-	(10,305)
Acquisition of petroleum and natural gas properties	(1,723,416)	(3,232,920)
Deferred charges	-	13,874
Cash used in investing activities	(1,723,416)	(3,229,351)
INCREASE (DECREASE) IN CASH	(698,582)	588,595
Cash, beginning of year	842,761	254,166
CASH, END OF YEAR	$ 144,179	$ 842,761

See accompanying notes to consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. **BASIS OF PRESENTATION**

These consolidated financial statements include the results of operations of the Company and its subsidiary, 704922 Alberta Ltd.

These consolidated financial statements are prepared on the basis of going concern, which contemplates the realization of assets and discharge of liabilities in the normal course of business. The Company is in the process of exploring its petroleum and natural gas properties and has not yet determined whether these properties contain reserves which are economically recoverable. The continuation of the Company as a going concern is dependant upon the discovery of economically recoverable reserves and the ability to obtain necessary financing to develop its petroleum and natural gas properties.

2. **SUMMARY OF ACCOUNTING POLICIES**

a) Petroleum and Natural Gas Properties

The Company follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs of exploring for and developing of petroleum and natural gas properties are capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, drilling costs of productive and non-productive wells, and future site removal and restoration costs. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would significantly alter the rate of depletion.

Depletion is provided for using the unit of production method based on estimated gross proven reserves.

Cost accumulated in each cost centre will be limited to aggregate future net revenues from estimated production of proven reserves plus aggregate future general and administrative expenses, estimated future site restoration costs, financing costs and income taxes.

All of the Company's petroleum and natural gas exploration and development activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

b) Investment in Seismic Data

The investment in 3D seismic data is valued at the lower of cost and net realizable value.

c) Capital Assets

Capital assets are depreciated at the following rates:

Furniture and fixtures	- 20% declining balance
Computer equipment	- 30% declining balance

2. SUMMARY OF ACCOUNTING POLICIES (Continued)

d) Flow Through Shares

The Company has financed certain of its exploration and development activities through the issue of flow through shares. Under the terms of the flow through share issue, the tax attributes of the related expenditures are renounced to subscribers. Proceeds from common shares issued pursuant to flow through financings, including any premiums paid for tax deductions transferred, are credited to capital stock.

e) Earnings Per Share

Earnings per share are calculated based on the weighted average number of shares outstanding during the year.

f) Site Restoration Costs

Site restoration costs have been provided for based on the Company's share of actual estimates for site clean up.

3. JOINT VENTURE COSTS RECEIVABLE

Joint venture costs receivable amounting to $ 120,113 are being disputed by joint venture partners. The Company feels, however, that these amounts will be fully recoverable.

4. CAPITAL ASSETS

	1997			1996
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Furniture and fixtures	$ 6,700	$ 1,876	$ 4,824	$ 6,030
Computer equipment	3,605	1,460	2,145	3,064
	$ 10,305	$ 3,336	$ 6,969	$ 9,094

5. PETROLEUM AND NATURAL GAS PROPERTIES

	1997	1996
Petroleum and natural gas properties	$ 340,212	$ 3,232,920
Depletion	-	-
	$ 340,212	$ 3,232,920

The Company's petroleum and natural gas properties consist of interests in certain oil and gas concessions located in the Democratic Republic of Congo in Western Africa. At December 31, 1997, there had been no commercial production from these properties. Once production begins, depletion will be recorded.

6. ABANDONMENTS

During the year, the Company has abandoned certain of its Canadian petroleum and natural gas properties consisting of interests in oil and gas permits located in Alberta. Since this makes up the Company's entire Canadian interest, this area of interest has been written off, except for the estimated net realizable value of the seismic data of $ 310,400.

7. CAPITAL STOCK

a) Authorized

Unlimited number of common voting shares
Unlimited number of preferred shares, issuable in series

b) Issued

	Number of Shares		Stated Value
Common shares			
Balance, December 31, 1995	2,683,334	$	255,855
Issued on exercise of broker warrants	135,000		20,250
Issued on acquisition of petroleum and natural gas properties	3,750,000		1,650,000
Issue of common shares for cash (Net of costs of $ 56,824)	5,060,000		2,041,176
Issue on exercise of options	278,330		41,750
Balance, December 31,1996	11,906,664		4,009,031
Issued on exercise of share purchase warrants	3,060,000		1,201,500
Issued on exercise of stock option	100,000		15,000
Reduction of capital stock on renouncement to flow through shareholders	-		(110,625)
Balance, December 31, 1997	15,066,664		5,114,906
Common shares paid but unissued (Note 11(a))	760,000		269,000
	15,826,664	$	5,383,906

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 1,333,334 common shares issued upon incorporation are held in escrow. The escrowed shares can be released upon consent of the Alberta Securities Commission, as to one-third thereof on each of the first, second and third anniversaries of the completion of the Company's Major Transaction on March 14, 1996.

7. **CAPITAL STOCK** (Continued)

c) Outstanding Options

At December 31, 1997 and 1996, the Company had the following outstanding stock options issued to directors, officers, employees, and other key personnel pursuant to the Company's incentive stock option plan:

	1997		1996	
Expiry Date	Number of Shares	Price	Number of Shares	Price
November 8, 2000	100,000	$ 0.15	740,000	$ 0.15
September 16, 2001	650,000	0.63	-	-
August 6, 2002	725,000	0.39	-	-
	1,475,000		740,000	

8. **EARNINGS PER SHARE**

a) Per share information is calculated on basis of the weighted average number of common shares outstanding during the year ended December 31, 1997 of 14,349,157 (1996 - 9,446,357).

b) No fully diluted earnings per share are shown as the exercise of stock options would be anti-dilutive.

9. **FINANCIAL INSTRUMENTS**

The Company's financial instruments are comprised of cash and term deposits, accounts receivable, prepaid expenses and accounts payable. Due to their short-term maturity or capacity of prompt liquidation, the carrying amounts of these financial instruments approximates their fair market value unless disclosed elsewhere in these financial statements. The Company is exposed to financial risk that arises from the credit quality of its joint venture partners. It is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments unless disclosed elsewhere in these financial statements.

10. **INCOME TAXES**

At December 31, 1997, the Company has incurred non-capital losses for Canadian income tax purposes of approximately $ 496,657. These losses will expire between 2002 and 2004 if sufficient taxable income is not generated. The Company also had available for deduction, at rates allowed under the Income Tax Act, $ 1,931,748 of oil and gas expenditures. The potential future benefit of these losses and deductions have not been reflected in the financial statements.

11. SUBSEQUENT EVENTS

a) Share Issuance

On January 5, 1998, the Company closed an offering of common shares and common share purchase warrants. A total of 980,000 units were issued for gross proceeds of $ 348,700. Each unit consisted of one common share priced at $ 0.35 per share for Canadian investors ($ 0.38 per share for foreign investors) and one share purchase warrant which entitles the holder to acquire an additional common share at $ 0.50 per share. These warrants expire January 5, 1999. Prior to December 31, 1997, gross proceeds of $ 269,000 had been collected for 760,000 units.

b) Acquisition of Collier Ventures Limited

Effective January 26, 1998, the Company acquired all of the issued and outstanding shares of Collier Ventures Limited ("Collier"), an Isle of Man corporation.

Collier holds a 100% working interest in a hydrocarbons prospecting and mining concession block ("The Rendus Concession") located in the Democratic Republic of Congo. The aggregated purchase price for Collier was $ 1,000,000 payable by the issuance of 3,000,000 common shares of the Company at a deemed price of $ 0.3334 per common share.

The purchase price will be allocated as follows:

Petroleum and natural gas properties	$ 1,043,952
Debt assumed	(43,952)
Net assets	$ 1,000,000

CORPORATE INFORMATION

DIRECTORS

• William Cherwayko
Calgary, AB

• Leroy Wolbaum
Nelson, BC

• Ross E. Moulton, P.Geol
Calgary, AB

• Robert J. Leslie, Ph.D., P.Geol
Calgary, AB

OFFICERS

• Robert J. Leslie
President
Chief Executive Officer
Chief Financial Officer

HEAD OFFICE

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• fax: (403) 270-1839

• e-mail: mart@shaw.wave.ca

AUDITORS

• Smith Cageorge
Calgary, AB

BANKERS

• Royal Bank of Canada
Calgary, AB

SOLICITORS

• Ogilvie and Company
Calgary, AB

TRANSFER AGENT

• Montreal Trust
Calgary, AB

STOCK EXCHANGE LISTING

• Alberta Stock Exchange
• Trading Symbol “MMT”

SHARE CAPITAL

• Issued & Outstanding: 19,046,664

MART RESOURCES, INC.

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CALGARY, AB T2N 3P4
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E-mail: mart@shaw.wave.ca